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From Hills and Hollers

Rise of the Poultry Industry in Arkansas



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Chapter 6

The Rise of the Integrated Firms 1951-1962

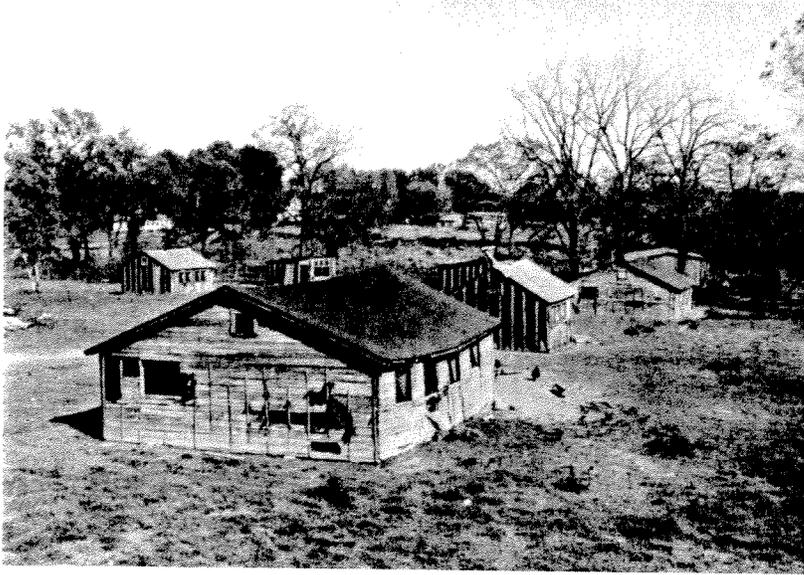
In May 1953, *Poultry Industry* published an essay on the competitive advantage of the Southern poultry industry, which already had grown from 25% of the market in 1934 to 50% by the early 1950s. The trade publication predicted that the cost of production and warmer locations provided advantages that would aid Southern growers. In addition, upland area farmers in Arkansas, Georgia and Alabama, with limited economic alternatives due to the introduction of automatic cotton picking machine, were increasingly attracted to poultry as a means of remaining in farming. The article remarked that the willingness of feed dealers, processors and hatcheries to advance money to farmers had allowed for the dramatic expansion of the poultry industry. A broiler house cost \$4,000 and lasted ten years, allowing owners of small farms to start poultry. *Poultry Industry* predicted that expected technology of production and marketing would continue to reduce costs to the consumer, particularly the introduction of the auger method of distributing food in the broiler houses, which reduced the laborious task of hand feeding.

1951 - Willis Shaw, Elm Springs, loaded 40,000 broilers into coops in one-half day; 30 chicken catchers and 20 drivers were used.

Source: R.M. Smith

Overall, the state lost population in the 1950s as Arkansans sought employment opportunities out of state. The competition of irrigation agriculture in California and the southwest kept farm prices low. In contrast, in north-

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Old-style broiler houses, 1950, Pope County. Although many old-style broiler houses such as these dotted the countryside, Arkansas was on its way to big-time, big-batch broiler production. (Source: Arkansas Cooperative Extension Service)

western Arkansas, Campbell Soup, which had acquired Swanson, upgraded its operation, which had started production in Fayetteville. In 1954, feed operations were expanded to produce necessary feeds for integrated business. Campbell Soup expanded both to finance its own broiler growers and to supply other feed dealers. Output of the mill met the needs of one and a half million birds every nine weeks. Moreover, Campbell Soup also processed poultry by-products of feet, heads and viscera. In addition, Simmons poultry introduced hydrolyzed poultry feathers, which would be processed and used to supplement poultry rations. This reduction in feed cost was a key to profitability.

The poultry industry in Arkansas was a mix of some subsidiaries of national organizations and local small processors supported by a network of feed mills, hatcheries, truckers and growers. Armour had a plant in Bentonville, Swift in Muskogee and Ocoma in Berryville. Springdale alone had 19 poultry companies.

The major centers of poultry production in northwestern Arkansas were Springdale, Fayetteville, Elm Springs, Prairie Grove, Lincoln, West Fork,

Rogers, Bentonville, Berryville, Hindsville, included Batesville, managed by discreet farmers, to buy out of state. Dealers, consequently, determined degree of fleshiness, skin and shanks that was to draw graded processors.

The dealers used half-ton trucks, which were then off-loaded.

A pioneer in Mills in Fort Smith, Johnson, an Oklahoma chickens for 38 initial difficulties carry the coops and reload them.

In 1952, per Merkle of Elm Danville, J.K. Batesville and Rogers helped create the Federation. The organization of the existing Dealers organization came from the Chicken-of-Tom Ritter was president of Russellville via the National Poultry national publicity natural journalist for major producer.

¹See Appendix A for

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Rogers, Bentonville, Cave Springs, Siloam Springs, Decatur, Eureka Springs, Berryville, Hindsville, Huntsville and Harrison. Other production areas included Batesville and DeQueen. The system in the early 1950s was still dominated by discrete entrepreneurs. Dealers went to the growers, most of them farmers, to buy broilers and assemble and load the birds for transportation out of state. Dealers preferred to go to the largest growers for ease of collection, consequently favoring those farmers increasing production. The dealers determined the price by weight and performed visual inspection of the degree of fleshing, uniformity of body type, color of plumage and color of skin and shanks. Superior growers could make 5 to 13 cents a bird, a margin that was to dramatically shrink with the increasing dominance of the integrated processors.

The dealers loaded chicken into coops and hauled them on one-and-a-half-ton trucks for transportation to the central loading point. The chicks were then off-loaded to large "poultry pullmans" and shipped to market.

A pioneer in the first efforts to create an integrated operation was O.K. Mills in Fort Smith. In 1952, O.K. Mills started to contract out to Monroe Johnson, an Oklahoma radio preacher. They sold Johnson feed and purchased chickens for 38 cents after 16 weeks. Collier Wenderoth remembered the initial difficulties in arranging for growers and in getting labor willing to carry the coops from the trucks, stack them in the houses, catch the chickens and reload them on the truck.

In 1952, poultry producers Jess Merkle of El Dorado, Joe Ray of Danville, J.K. Southerland of Batesville and Roy Ritter of Springdale helped create the Arkansas Poultry Federation. They built on the foundation of the existing Arkansas Feed Dealers organization. The initial funding came from unspent funds from the Chicken-of-Tomorrow contest. Roy C. Ritter was president, and J.A. Niven

of Russellville was vice president. Charley Hawk, the Executive Director of the National Poultry and Egg Association, was hired to handle state and national publicity. Hawk enjoyed a reputation as an able, articulate agricultural journalist from his regular column in national trade publications. Each major producer pledged \$1,000 to assist the new association, which played a

1951 - University of Arkansas Poultry Judging Team placed first, second and third and won nine of 11 medals in Southern Poultry Judging Contest.¹

Source: R.M. Smith

¹See Appendix A for information on first-place poultry judging teams.

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The actual processing of chickens was all done on line staffed largely with women who did all the cutting. The viscera were removed by hand, and the bird moved past the federal inspector with the pan containing the viscera immediately under the bird, which was hanging on a shackle. In the 1960s the processors converted to throw-away troughs or water-flushed troughs, with the switch to chilling of birds. Later, a counter-rotating pick was introduced to allow birds to move on the line without reversing their position. Other improvements included automatic spring shackles, gizzard slitters, peelers and cutters. Later improvements to the lines included automatic killing machines and automatic giblet wrappers. In the 1970s, automatic vacuum lung removers, automatic openers and eviscerating machines were introduced.

The new inspection was expanded in January 1962 to provide for inspection of processing techniques. The chilling methods prevented undue moisture absorption and assured drainage of free water from carcasses prior to packaging.

Another major leap into the future came from Campbell Soup in Fayetteville. In 1955, Swanson sold his operation to Campbell Soup. The new firm was to be a pioneer in the value-added concept of selling already-cooked and frozen dinners. Henry Shreve of Campbell Soup foresaw that this innovative concept would expand the market niche of chickens from Sunday Dinner to everyday food by the application of preparation technology to lower production costs. The frozen T.V. dinner was the first major prepared-poultry product to win consumer acceptance as a convenience food.

By 1959 depressed prices brought into focus the schism between the growing and processing elements. The farm price for broilers remained low, and processors were still making a small profit, but growers had fallen below production costs. Growers in northwestern Arkansas, with the assistance of some processors, decided to emulate developments in the Delmarva Peninsula and organized a poultry auction in Springdale. The problem was to coordinate sales in an expanding economic environment in which the number of broilers going to market doubled between 1955 and 1960.

The Springdale auction, called the Arkansas Poultry Exchange, was established by Don Tyson, Jeff Brown, Glenn Parsons and E.D. Williams, among others. The founders hoped that the growers would receive a premium price and the processors would have a wide variety of sizes to choose from. Seven to 38 growers participated.

The pressure to squeeze the inefficiency out of poultry growing resulted in a greater emphasis on developing managerial skills. In 1957, the Center of Continuing Education at the University of Georgia established the first Southeastern School of Management for the Poultry Industry. The school promoted

The TV dinner was prepared-poultry product that won consumer acceptance as a convenience food. The boom to working men in the 1950's and 1960's. Campbell Soup Co

the concept of a Tyson, Neely Ca session. The techniques to the ne

Mark Simr ing constant pri processors would possibility of co of processors pr

The meeting of each year at the Finding Conference to reach solvenc fire. As J.K. Sou an industry base fraternity.

Don Tyson processors also led to

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Table 7.1. Vital statistics for the poultry industry in Arkansas, 1965.

Commercial broilers	320 million
Price per pound	14.0 cents
Average number of layers	11 million
Price per dozen eggs	37.5 cents
Turkeys raised	4.8 million
Price per pound	21.8 cents
Arkansas' rank among states	
broilers	2
eggs	9
turkeys	8

Source: Arkansas Agricultural Statistics.

tal to many of the small, under-capitalized companies. The incentive to invest in ever-greater production facilities resulted in reevaluation of the underlying structure of the industry.

In order to survive, Farm Cooperatives, meat packers, food processors and feed companies were restructuring the industry, with Ralston Purina Company, Cotton Producers Association of Atlanta, Central Soy Company of Fort Wayne, the Pillsbury Company of Minneapolis and Swift and Company of Chicago taking the lead. By the mid-1960s, hatcheries, feed mills, processing plants and marketing services were all linked together.

By 1962, about 15% of all federally inspected birds came from diversified farms of Central Soya, Cotton Producers, Pillsbury and Ralston Purina. Another 10% came from the three large meat packers, Armour, Swift and Wilson. The smaller competitors, with their small volumes, limited geographic regions and lack of marketing system, were at a competitive disadvantage.

The pricing system of retail stores put tremendous pressure on poultry, squeezing the profit margins, particularly the dual price system of utilizing poultry as a loss leader. The problem was exacerbated by the technique of offering breasts and thighs at one price and drumsticks and wings at another. The two rates of sale played havoc with inventory control due to manipulation of consumer demand.

By 1962 increases in maturation due to genetic advances, economies of scale of larger producers, greater efficiencies of processors, introduction of bulk feeding to growers, superior technology in the hatchery, increased use of feed facilities and lower poultry mortality due to drugs and vaccines all

contributed to September 1965 prices by asking for higher prices by asking for higher prices returned chickens on a California, with as an available market. Moreover, export as well

The need to maintain entrepreneurial spirit. Furthermore, the movement exacerbated the movement. The movement, sales, a



School lunch production over production

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In 1967, Tyson purchased Franz Food Products in Green Forest and two years later acquired Prospect Farms of North Little Rock. The acquisition of this company was aligned with the strategy of concentration on niche marketing. The new plant was constructed to supply food services and institutional buyers with "portion-controlled, pre-cooked frozen products." Tyson broadened its product mix to include stuffed Rock Cornish game hens, sliced turkey and oven-roasted boneless turkey breast. In Tyson's push towards convenience food, he introduced the "County Fresh Chicken." The pre-packaged portion was chilled to 28°; the poultry did not freeze, but the shelf life was extended. When it was placed in the retail counter, it thawed up to the fresh level. As an incentive to buyers, County Fresh Chicken offered a money-back guarantee. The new approach was to produce chicken that was processed prior to placement in stores, thereby eliminating work for highly paid store butchers.

In 1970, the so-called "Nader's Raiders" of Ralph Nader accused the poultry industry of tolerating a low quality of "wholesomeness." The attack on poultry processors implied that an increase in the rate of cancer could be linked to poultry. Poultry scientists argued that while per capita consumption of poultry had risen sharply since 1946, the incidence of cancer, except for lung cancer, had remained constant. In addition, the highest level of lymphoma-leukemia was in the Midwest, where poultry production was not a major industry. Moreover, any birds on the processing line that showed any evidence of Marek's or Rous virus were condemned. The inspection system was designed to ensure that unhealthy birds did not enter the channel to human consumption.

In the 1970s, the poultry industry was to be transformed again from integrated processes to agribusiness. The new scale of business was once more to squeeze the entire industry, eliminating some firms and greatly enhancing the market share of others.



Ralph Nader accused the poultry industry of tolerating a low quality of wholesomeness. The accusation, which implied a correlation between cancer and poultry, was later disproved by scientists. (Source: Shiloh Museum)

Chapter 8

Growth and Consolidation

By the early 1970s, feed producers dominated the national poultry industry. With their feed milling capacity and business experience, Ralston-Purina, Allied Mills, Central Soya, Cargill and ConAgra controlled capacity from processing plants to marketing.

The raising of the birds, the processing activities and movement into distribution channels were all controlled by a single company organized for maximum production. However, these companies were to be increasingly unhappy with the wide swings in profitability. For example, the price declined from 62 cents in 1975 to 49 cents in 1984. As a result, commodity chicken production was to become less important than the development of further-processed chickens for sales niches in the retail poultry market.

The underlying dynamics of the poultry industry were favorable for future profits due to the realignment of the eating habits of Americans. The *Poultry Times* observed that the entry of more women into the labor force meant that most families ate one-third of their meals as already-prepared foods. In 1970, Banquet Chicken in Batesville entered the fried chicken business. Morton Weaver and Ralston Purina also ventured into the precooked chicken meal market.

From 1970 to 1980, further processing grew from 4% to 20%. Sixty percent of Tyson's output was in "value-enhanced products." As Don Tyson told the Food Service Marketing Workshop in 1988, quoted in *Poultry Industry*, when the industry gets into over capacity, 75% of the industry "has to take medicine. The question is, does it take medicine slowly over a long period of time, or does it gulp it down and get rid of the problem really quick."

Table 8.1. Vital statistics for the poultry industry in Arkansas, 1970, 1975, 1980, 1985.

Unit of comparison	1970	1975	1980	1985
Commercial broilers (million)	451	482	634	760
Price per pound (cents)	13.2	26.2	28.0	31.5
Age number of layers (million)	16.5	15	17	15
Rice per dozen eggs (cents)	37.1	60.8	60.6	66.1
Eggs raised (million)	7.3	7.1	14.5	16
Price per pound (cents)	23.7	32.6	41.0	46.0
Broilers' rank among states				
Broilers	2	1 ²	1	1
Eggs	4	3	3	5
Turkeys	6	6	4	4

Arkansas attained the number one slot in broiler production in 1971. Source: Arkansas Agricultural Statistics.

In 1972, a major shift was occurring within the poultry industry. Major players such as Ralston Purina were deciding that the price swings in poultry were disconcerting to corporate planners. Swift and Pillsbury decided to cease their exposure in the poultry business. In the face of these moves, they purchased Ocoma Foods, which gave them an additional plant at Fayetteville, Arkansas, as well as two processing plants in Shelbyville and Memphis, Tennessee.

Despite the favorable prognosis for chicken consumption, individual processors had an increasingly difficult time due to market swings. In 1973, drought and ill-conceived grain sales to the Russians raised feed prices to levels and weakened the profit margins. During this time Cassidy Broiler Company of Nashville, Arkansas, merged with Tyson on building facilities in the state. The collaboration led to the acquisition of Cassidy's operations by Tyson.

In 1970 Jess Merkle sold J-M to Pillsbury with Merkle running the operation in El Dorado. Merkle believed that the new owners were in for an unpleasant surprise. Without deep capital resources, poultry processors would have difficulty in sustaining output in the face of a slack market.

The competition was brutal, and remaining solvent was a challenge, especially when acts of God were factored in. For instance, in the fall of 1983 a fire destroyed GoldKist's Bentonville poultry processing plant, the firm decided to close its operation in northwestern Arkansas. The destruction of the plant was a major blow to the hundreds of producers of broilers, eggs and turkeys who had to find another outlet for their production.

The Georgia-based Goldkist had originally come to northwestern Arkansas in 1978 at the request of the Farm Service Cooperative. The Farm Service Cooperative members had voted 3,226 to 499 to join Goldkist rather than Tysons. The Farm Service Cooperative, started in 1941, had 2,300,000 broilers with its growers at any one time. The closing of Goldkist reduced the market options for these farmers. The market was unforgiving due to narrow profit margins.

The central role of the feed companies in poultry had allowed the companies to quickly change diets to parallel research developments. However, by the 1970s many of the feed companies started to realize the negative aspects of being directly involved in growing. For example, additional capital requirements were tied up by equipment, labor and the large number of ingredients in storage.

The shake out in the poultry industry was brutal. As Jerry Hinshaw of Arbor Acres observed, many of the participants were operating on borrowed money. As he viewed the economic environment, "for everyone that survived and made lots of money, there were probably 100 that went broke." Ronnie Cameron of Mountaire related similar memories of the tough years from 1971 through 1975: "We had everything from the price freezes to dramatic down markets."

With firms cutting back activities, Collier Wenderoth of O.K. Foods foresaw further consolidation. He warned, however, that "those who lose track of the important details the business requires will ultimately lose out." Only those companies that utilized effective cost control survived. O.K. Foods in Fort Smith moved from company-owned farms to contract growers. O.K. Foods saw that diversification was the key with tight inventory controls being essential. O.K. offered 27 items of breaded and battered fried chicken. In 1974, fulfilling Wenderoth's prediction, Dixie Home Farms and Cassidy Broiler merged with Tyson. Moreover, Tyson switched to its own trucks to handle the shuttle runs between the first and second processing plants. Some of Tyson's plants specialized, and others handled all aspects of processing.

The ascendancy of Tyson was a spectacular success story. In the early 1970s, Cagles in Atlanta, Georgia, was experiencing economic difficulty and sold its operation in Shelbyville, Tennessee, to Tyson. Tyson perceived the stagnation in the ice-packed chickens in favor of breaded fried strips and breaded meat patties and decided to expand. It was, initially, poor timing, since U.S. broiler production in 1975 had fallen to the 1969 figure and to the 1971 figure in pounds produced. Consumer resistance to the highest prices since 1949 posed a challenge to the entire industry.

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Left: Jerry Hinshaw of Arbor Acres, pictured here with John Treat; Right: Collier Underoeth of O.K. Foods. (Source: Shiloh Museum)

The Shelbyville plant specialized in pre-cooked chicken. Prior to the plant's opening in 1974, the plant was not running to capacity due to Tyson's production in production. When the plant reopened, however, it was refurbished in order to process fresh, pre-packaged poultry for accounts in the Ohio River Valley.

In 1978, Tyson made other major acquisitions, purchasing processing plants from old line meat packer Wilson Food Corporation. The four processing plants, located in North Carolina, Georgia and Arkansas, and their subsequent conversion to Rock Cornish game hens gave Tyson a 60% share in the market.

The common use of the microwave oven offered another opportunity for integrated processors. By 1990, chicken sales of whole birds had plummeted from 75% to less than 20%. The operative concept in the chicken business was value-added. Tyson's product line included pre-cooked fried chicken, bologna, pot pies and chicken frankfurters. In addition Tyson continued to expand its basic food service area.

The decision of the major feed companies to either discourage further poultry holdings or limit their exposure to the vicissitudes of the price cycle resulted in divestments of holdings. One major beneficiary was James "Red" Hudson, a local manager for the Ralston-Purina Company. When Ralston-Purina decided to sell its operations in northwestern Arkansas, Hudson sought to take over the Arkansas operations. After encountering difficulties, Hudson secured funds and, with the help of George's, was finally able to acquire the operation in 1972. In the next 10 years, Hudson Foods expanded to a com-

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pany with 6,000 employees. Hudson also expanded to Oshe Foods, which produced luncheon meats, hams, sausage and bacon.

Originally in 1972, Hudson Foods proposed a merger with a long-standing northwestern Arkansas company, George's Feed and Supply Company; however, due to the tax implications, the merger was not consummated. Hudson was supported by Lloyd Peterson and Gene George when banks refused to support him. As the business evolved, Hudson started hatcheries for growers in Arkansas, Missouri and Oklahoma and owned a processing plant in Noel, Missouri; feed mills in Westville, Oklahoma, and Butterfield, Missouri; and grow out facilities in Missouri, Indiana and Oklahoma. Hudson's management team were all experienced poultrymen, mainly from Ralston-Purina. By 1986 Hudson Foods of Rogers had increased production 50% over 1972 production levels.

Another major innovator in the pre-cooked sector was J.K. Southerland of Batesville, who merged his operations with small processors in Missouri to become Banquet Foods in 1970, which was later acquired in 1979 by ConAgra. Banquet became a major supplier of pre-cooked fried chicken. Similarly, Leon and Dorothy Milsap open Milsaps Processed Chicken in Russellville to specialize in deboned, filleted, marinated and fried chicken.

The industry had to reexamine its cost structure following the October War in the Middle East in 1973; inflation, sparked by rising energy prices, reshaped the American economy. Poultry, with its dependence on propane heat in the houses, was particularly hard hit. In response to the energy price exigencies, Dr. Frank Siccardi, an Arkansas broiler grower and poultry industry consultant, started experiments to perfect an ideal environment to maximize energy efficiency for growers. He experimented with combinations of brooder stoves and manipulation of fixed heating and ventilating systems. Poultry growers needed to stop the erosion of their already-narrow profit margin by improving energy efficiency as well as improving disease control.

Left to right: James "Red" Hudson, Gene George, Leon Milsap. (Source: Shiloh Museum; George's)

